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## **The Prevention of Tax Corruption Act: A Study in Indonesia**

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### ***Abstract***

*Rampant acts of corruption in the taxation system in Indonesia by tax officers as well as by taxpayers is a significant obstacle to development. This research aims to analyze perceptions of corruption in the taxation sphere. Nine teachers and eighty five students of vocational schools in Semarang, Indonesia were asked whether certain accounting practices were necessary to avoid corruption. The results showed that both teachers and students were aware of correct accounting practice. This situation must be maintained by developing anti corruption curriculum.*

**Keywords:** *corruption, taxation, vocational high school, accounting practice*

### **1. Introduction**

Corruption has become a main problem faced today by Indonesia and many other countries worldwide. Corruption rampantly occurs in all governmental elements such as in ministry level, parliamentary members, politicians, businessmen, and others (Syamsudin, Sriyana, & Prabowo, 2012).

World Bank and US Agency International Development (2000) states that corruption is a serious threat to the stability and the development of people welfare. Besides, it causes massive impacts in a variety of levels, such as endangering the national integrity and morality, resulting in economic decline, causing investment mess, misappropriating public resources, widening welfare and poverty gap, reducing taxes, and slowly lowering public trust on governmental agencies which end up in organised crime. This statement is similar to what is said by Akanbi (2002), Atoyebi and Mobolaji (2004) and Aguda (2001) in Mobolaji (2012) stating that corruption can threaten the democratic government, so it is the antithesis of modernity and development. Corruption results in political instability, social and environmental disruption. Corruption also grows inefficient and unethical basic values as greed and robbery which become the main reason of military rebellion in some developing countries. Othman et al., (2014) states in their paper that based on the Corruption Perception Index (CPI) and the empirical evidence, corruption has been done in developing and under developing countries. Thus, the corruption becomes a serious issue in this world.

Many researchers have conducted some investigation the negative impact of corruption on many aspects of human resources and economic development. They found many corruption forms and what their correlation were with ethic, law, economic, education and cultural factor problems. They focused on the macro side of the corruption phenomenon using varied models and methods (Huang, 2008) and (Marshal, 2011). Henderson and Kuncoro (2011) studied about the relationship between corruption and local democratization and linked with the role of Islamic parties. They found that in Indonesia during 2001 to 2004, corruption was declining. It means until 2004 corruption still existed in Indonesia. Previous research from Olken (2007) examined the existence of corruption in redistributing wealth to the poor households. He examined the welfare losses from the corruption. Furthermore, Vial and Hanoteau (2010) investigated the corruption in the Indonesian manufacturing industry over the period 1975 to 1995. From the Asian paradox, using bribes and indirect tax payment as a measurement they found that corruption had significant effect to the individual plant growth.

The corruption act can involve two sides, both tax officers and tax payers. Lots of studies have been done to examine corruption across the country, such as Sharma and Mitra evidence in Indian Enterprises (2015); Chen, Jeon, Wang and Wu (2015) in emerging economies; Timmons and Garfias in Brazil (2015) and also other researches conducted in the Middle East, North Africa (Samimi, Abedini and Abdollahi, 2012). In developing countries, corruption decreased total tax revenue by subtracting the total revenue of all tax sources (including income, profit, property, capital gain, product and service). Hwang (2002) used cross-country evidence, identified that corruption indexes were positive and significantly related to tax on international trade at recent government income. Furthermore, corruption has negative and significant influence to tax revenue and the amount of government income of gross domestic income.

From above, in the business world, we can find some scandal mostly is related to ethics. Hosmer in his paper stated that the ethics suppose to be added in the business curriculum. His reason refers to the insider-trading scandal on Wall Street. It is occurring because of the moral standards of the students. Schools, college and universities are the organization that indirectly should take the responsibility of their ethics. It is not easy to change the attitude, beliefs and habits of the students. But, at least we have to try to teach them about moral standard and ethics. Sometimes, the scandal in the business not only because they mean it but because of their ignorance. Different person has different moral standards, it depends on their beliefs and goals. Goals are something that we want to achieve and how people describe the success or completing tasks or personal improvement, whereas beliefs are something related to expectations or think about certain concepts or putting regard in as true (Hosmer, 1988).

Financial statement as a basis for taxation reporting is written according to the standard of financial accounting. It requires comprehensive understanding on the methods and procedures for financial reporting. Thus, it results in relevant, reliable, and accountable financial information. Mistakes and/or errors in the process of writing financial reporting will result in financial information which cannot be used as a tool to make decisions for financial statement users, both internal side and external business. Besides, misinterpretation in understanding the procedures of writing financial statements will cause an impact on tax corruption which is not recognized by accountants. Moreover, the Indonesia government also tries to socialize anti corruption educations in order to operate corruption eradication program since education has high effectiveness in the effort of eradicating corruption. Anti-corruption educations are a cooperative work between The Ministry of Education and Culture and Corruption Eradication Commission. Some researchs investigating anti corruption education have been conducted in the recent years. In 1988, a survey was conducted in a group of new students taking business ethics subject in Baylor University, Texas. It resulted that 9 (nine) of 10 (ten) students stated that they would act unethically if they were guaranteed not to be punished or arrested for their act (Woods, Longnecker, McKinney, & Moore, 1988). A new study conducted by Buckley, Wiese, and Harvey (1998) in South Western University in the USA found that arrested and punished probabilities effectively predict the possibility of the involvement in unethical behaviors. This finding is concordant with the expected direction: the lower the possibility of being arrested, the higher the indication of being involved in unethical behaviors. In other words, future businessmen in USA views unethical business behaviors as a problem of being arrested analysis. Accordingly, Cole and Smith (1995) suggested that the subject term of "Business Ethic" in USA must be learned and understood by businessmen in USA. Stevens, Harris, and Williamson (1994) have proven that faculty of business in universities has high tolerance on unclear business practices than other faculties. The findings of the study affected United Nation Global Compact (UNGC) in 2000 to ensure every business to adopt 10 (ten) principles about anti corruption, environmental rights, work labor, and human which act universally. Consequently, international business performers obey business ethics, are able to be role models in business world, as well as create work place to be more deeply opened to anti corruption practices (Cabrera, 2005). The implication of this study is that all universities need to design a set of curriculum that fits with the behavior and the needs of business sector which is very dynamic. Thus, students are capable of preparing themselves to get into the business world. Consequently, this research is conducted to analyse whether there is difference perception between vocational high school teachers and students on corruption acts.

## 2. Corruption

### 2.1. Definition of Corruption

In general, corruption is defined as a misappropriation of public facility for personal interests. This appropriation involves the use of standard legal. Some good examples for this form of corruption are: selling of government property by government officers, taking over public assets, bribery, tampering government finance. Corruption could be a response for advantageous as well as harmful regulation. For instance, corruption happens as a response for weak regulation when an individual does bribery to avoid punishment because of doing illegal acts which is actually as an effect of the existence of incomplete monitoring regulation (such as stealing act). On the contrary, corruption may also occur as a result of bad policy or because of the existing institutions which take illegal levy from individuals needing those institutions (Djankov, LaPorta, Lopez-de-Silanes and Shleifer, 2003) in Svensson (2005). Myint (2000) defined corruption as the use of public power for the benefit of individuals or in other words, using official position and/or official power to give self-benefit. This misappropriation may be conducted in many ways, such as: bribery, extortion, fraud, evasion, nepotism, cronyism, giving the public assets and public properties for private purposes and the provision of a project as a return. In the list, fraud and bribery are usually conducted by government officials without involving second person. While bribery, extortion, and giving projects with specific return always involve second person and/or parties, i.e. the giver and the receiver of corruption agreement.

Akindele (1995) in Aluko (2002) stated that corruption as forms of reciprocal behaviors or transactions in which each of both power holders do conspire. In addition, both sides respectively give appreciation each other as an agreement to give preferential treatment (illegal) or to support certain principles or interests of certain organizations (or public) in the society. Overall, corruption includes some actions, such as: the use of one's office for one's benefit, in the form of money; gratification; the influence of peddling; insincerity in giving advice aiming to gain personal benefit; not working full time but paid fully.

### 2.2. Types of Corruption Acts

Based on Law No.31/1999 as amended by Law No.20/2001 about The Eradication of Corruption Criminal Acts, corruption can be categorized into 30 (thirty) types. Under the law, it details the acts which may be subject to criminal sanctions for corruption acts. The thirty types of corruption act can be classified as follows: (1) Loss on government finance, (2) Bribery, (3) Evasion in position, (4) Extortion, (5) Deception, (6) Conflict of interest in the procurement process, (7) Gratification. Whereas, the types of criminal acts

related to corruption acts are: (1) Hindering the process of an investigation on corruption cases, (2) Not giving information or giving false information, (3) Banks which do not provide account information of corruption suspects, (4) Witnesses or experts who do not give information or give false information, (5) People who hold the secret information of their positions do not give information or give false information, and (6) Witnesses who reveal the identity of corruption reporter.

The United Nation Convention Against Corruption (2003) in the statement mentions that acts which are categorized as corruption are: (1) Making extra bookkeeping accounting, (2) Making a transaction which is recorded unclearly or in extra books, (3) Recording fictitious expenses, (4) Recording debt with false object identification, (5) Using false documents, and (6) Deliberately destructing bookkeeping document earlier than the time set by the Law.

### 2.3. Tax Function

According to Law No.28/2007 about General Tax Provisions and Procedures "Tax is a mandatory contribution to the state owed by individuals or corporations which is enforceable under the law, accompanying with not getting direct compensation and used for the purposes of the state for the prosperity of the people". Therefore, tax has function as follows:

1. Budgetary function; it is also named fiscal function, i.e. function to collect as much tax money as possible under the prevailing Law. Of which it will be used to finance governmental expenditures.
2. Regular function; is a function which taxes used as a tool to achieve certain purposes outside financial sector. Taxes are used as a means of wisdom.
3. Democracy Function; is a function which is one of the incarnations or a form of (mutual cooperation system, including government and development activities for the benefit of the people. This function is often associated with individual's rights to get service from the government. When a person has conducted his obligation to pay the taxes, however the government does not provide good service, he can give complaints.
4. Distribution function; is a function which emphasizes more in the elements of equity and justice in the society.

### 3. Method

This research is a descriptive study which focussed on issue of recent facts in a population and to describe characteristic in an individual or a group (Kothari, 2004). The main purpose of this study is to test the hypothesis or to answer questions related to the current status of the investigated subjects. This research uses simple random sampling and there search object are vocational high schools in Semarang, Central Java, Indonesia which have accounting department. Respondents are divided into two groups, the first group is accounting and taxation teachers and the second group is accounting and taxation students who have obtained accounting and taxation subjects. Total respondents are 94 (ninety-four) people consisting of 9 (nine) vocational high school teachers and 85 (eighty five) vocational high school students. Both respondents have good understanding about the process of writing financial statements and the students have acquired the subject of basic taxation from the teachers. The research adopts methods of survey questionnaires to test respondents' perception on corruption acts in taxation. Questions in questionnaires are designed by adopting corruption indicators which based on the United Nation Convention Against Corruption in 2003. The indicators used are:

1. Making extra bookkeeping
2. Making a transaction which is recorded unclearly or in extra books
3. Recording fictitious expenses
4. Recording debt with false object identification
5. Using false documents
6. Destructing documents

The data obtained are processed and analyzed using T-Test assessment.

### 4. Result and Discussion

#### 4.1. Result

The statistical results can be seen as follows:

Indicator	Sig
X1	.462
X2	.880
X3	.854
X4	.988
X5	.337
X6	.303

Table 1: Independent Samples Test

Table 1 reveals that the value of Levene's Test for Equity of Variances shows that the result of significance is more than 0.05, which means that the population variance of both samples are similar. Thus, the hypothesis which stated that there is difference in vocational school teachers' and students' perception on corruption acts is rejected. The result of independent sample test can be seen in Table 2 which shows that total value and average value of respondents' answers.

	<b>Independent Variables</b>	<b>T</b>	<b>(2 tailed)</b>	<b>Information</b>
X1	Making extra bookkeeping accounting	3.574	0.001	There is different Perception
X2	Making a transaction which is recorded unclearly or in extra books	-0.005	0.996	There is no different Perception
X3	Recording fictitious expenses	1.395	0.166	There is no different Perception
X4	Recording debt with false object identification	1.727	0.088	There is no different Perception
X5	Using false documents	0.836	0.406	There is no different Perception
X6	Destructing documents	0.229	0.820	There is no different Perception

Table 2: Independent Sample Test Result

It can be seen that of six questions given to the respondents, there is a different perception between teachers and students at the first question (X1) which is related to the making of extra bookkeeping accounting. Questions X2, X3, X4, X5 and X6 show that teachers and students have similar understanding of cheating act in bookkeeping management.

Items	Statements	Average Value	
		Teachers	Students
1	<b>Making extra bookkeeping accounting</b>		
11	We are allowed to write more than one version of financial statement corresponding the user needs	3.6	2.3
12	We are allowed to write different statements for the interest of the company and the interest of tax	4.0	2.5
13	If the company gets profit decline, we can report it as a loss to avoid taxes.	4.1	3.3
	(Total)(Average)	(11.7)(3.9)	(8)(2.7)
2	<b>Making a transaction which is recorded unclearly or in extra books (Total)(Average)</b>		
21	It is unnecessary to record the whole company revenue in Profit and Loss Statement	4.4	4.3
22	Accounting Transaction is eliminated in order to lessen the tax which must be paid	4.6	4.5
23	Cost Expenses are recorded incorrectly as the real nominal	4.4	4.6
	(Total)(Average)	(13.4)(4.5)	(13.4)(4.5)
3	<b>Recording fictitious expenses</b>		
31	In order to lessen the tax which must be paid, all company expenses are recorded as charge	4.3	3.9
32	In order to lessen the tax which must be paid, the transaction of sale return is recorded more than the real data	4.4	4.1
33	In order to lessen the tax which must be paid, cost expenses is recorded much more than the real data	4.4	4.3
	(Total)(Average)	(13.2)(4.4)	(12.2)(4.1)
4	<b>Recording debt with false object identification</b>		
41	The number of debt in passive side is raised in order to create balance sheet with the number of active side	4.4	4.0
42	To ease the bookkeeping, a part of cash purchase is recorded as credit purchase	4.4	4.1
	(Total)(Average)	(8.9)(4.5)	(8.1)(4.1)
5	<b>The use of false documents</b>		
51	Adding the number of proof payment to add company charge	4.4	3.9
52	We are not allowed to create unreal entertainment cost to add the company charge	2.9	3.7
53	Make receipt for employees medication expenses to make it as company charge	3.9	3.0
	(Total)(Average)	(11.2)(3.7)	(10.7)(3.6)
6	<b>The destruction of documents</b>		
61	We are allowed to destroy the proof of transaction to ease the writing of financial statements	4.6	4.5
62	Due to the limited space, we are allowed to keep financial documents in opened area/place	4.1	4.2
63	Documented archives can be destroyed in 5 (five) years	3.8	3.6
	(Total)(Average)	(12.4)(4.1)	(12.3)(4.1)

Table 3: Average Value and Total Value of Respondents' answers

Table 3 shows that the disagreement is due to the fact that teachers understand that taxpayers are not allowed to make more than one version of financial statement corresponding to the users' needs. While students do not understand that this is forbidden. Therefore, they stated that taxpayers may write more than one financial statement based on the users' needs. Teachers also understand that taxpayers are not allowed to write different financial statements for the corporation or company interests and for tax interest. In contrast, students lack understanding on this prohibition which makes them doubtful in answering the question. It also occurs likewise in the question related to the condition of a company which declines in its profit. It is clearly forbidden to report that the company got profit decline in order to avoid the tax. Teachers understand this prohibition for taxpayers. On the contrary, students are less familiar with this regulation which makes them doubtful in responding to the question.

#### 4.2. Discussion

The research shows that overall, there is no difference in teachers' and students' perception on corruption acts in the taxation field. Therefore, to maintain this condition, it is necessary for the school to design an appropriate anti-corruption-based curriculum for taxation subjects. It is important to provide character education related to the prevention of corruption behavior for their students because low-level understanding in writing extra bookkeeping among students can trigger corruption act behavior when they become taxpayers. Therefore, to minimize students' misunderstanding in the bookkeeping system, it is necessary to strengthen the knowledge in accounting subject as well as its relevance and connection with taxation subject. Then, during the teaching-learning process of taxation subject, teachers can refresh students' knowledge by conducting a pre-test or other examination forms related to an accounting bookkeeping system. This can be implemented by teachers by integrating the whole taxation subject materials to students (general provisions and tax procedures, income tax, value added tax, luxury sales tax, and stamp duty) with anti-corruption education. The act of preventing corruption can be conducted by introducing anti-corruption values and principles such as anti-corruption values include: (1) Honesty, (2) Concern, (3) Independence, (4) Discipline, (5) Responsibility, (6) Hard work, (7) Simplicity, (8) Courage, and (9) Justice. Besides, vocational high school students are also required to understand the principles of anti-corruption which include: (1) Accountability, (2) Transparency, (3) Fairness, (4) Policy, and (5) Policy control.

The materials for anti-corruption curriculum are established for students to have sufficient knowledge about details of corruption as well as its eradication acts. To play an active role, students must be able to understand and apply the values of anti-corruption in their daily lives. Besides, anti-corruption education can also be socialized through extracurricular activities, including anti-corruption campaign, making wall magazine, distributing anti-corruption pamphlets, holding elucidations about anti-corruption by inviting either law or political experts (such as a resort police officer, prosecutor, or governmental official). Other activities can be done by many holding competitions, such as writing an anti-corruption composition or paper, speech about anti-corruption, poetry about anti-corruption, caricature about anti-corruption, composing anti-corruption songs, and others.

Many experts have suggested a number of anti-corruption policies, such as: apply a transparency regulation in each transaction, create an anti-corruption institution/commission, open court for corrupt political party heads, make an anti-corruption hotline number so that people and/or public can anytime report corruption act directly, court reformation to accelerate court administration, peers freedom, make a public audit commission so that state account can be audited by independent auditor and the report of national monetary must be published annually (Rose-Ackerman, 1997; Collier, 2000; Bardham, 1997; Coolidge and Rose-Ackerman, 1997; Gupta et al., 2000) in Mobolaji (2012). Some other scientists stated that it needs to conduct privatization and commercialization in governmental agencies (Svensson, 2000). Accordingly, governmental agencies can be carried out efficiently. Besides, it is necessary to reform civil service and public service and to apply salary system which is appropriate in civil service, to hold a training and repeat training for staffs (Van & Weder, 1997).

#### 5. Concluding Remarks

The result of this research has been achieved new knowledge and understanding for teachers about the significance of appropriate learning methods in taxation subject for vocational high school students. In this study, the respondents who filled limited/closed questionnaires are teachers and students of vocational high school in Semarang city, Central Java, Indonesia. Therefore, it is expected for future research that the respondents are from a wider area of province level. Therefore, the result of this study can support the programs of the government of Indonesia in socializing anti-corruption acts in academic circles.

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